

**To:** Clerk to Subcommittee, Legislative Council Secretariat

**From:** Hong Kong Quality Assurance Agency (HKQAA)

**Date:** 16 July, 2018

**Subject:** Written submission to express our organisation's views to the Subcommittee on Proposed Resolution under Section 3(1) of the Loans Ordinance (Cap.61)

**A. The Benefits of Green Bonds Certification, in particular to the Hong Kong Finance Sector**

1. There is a trend of increasing demands of funding for green projects/initiatives and also increasing number of investors committed to green investment in the global finance market. The launch of HKQAA Green Finance Certification Scheme (hereafter as "GFCS") is to support Hong Kong in becoming a green finance hub in the region.
2. The expected benefits of GFCS are in five key areas. Firstly, it would enhance the credibility of, and stakeholder confidence in, green bonds issued in Hong Kong via independent and impartial third-party conformity assessments. Secondly, it would enhance the transparency of the deployment of green funds, the nature, benefits and impact of the green projects on the environment. Thirdly, it would promote the green bonds issued in Hong Kong to potential green finance investors with the aid of the Green Finance Certificate and Certification Mark. Besides, it would demonstrate issuers' efforts to promote environmentally friendly investments. Lastly, it would promote a common understanding of Green Bonds.
3. The Scheme not only can be used to facilitate financing of green businesses and projects in Hong Kong, but also create business opportunities for financial sector by offering assurance to investors who desire a robust mechanism to manage environmental and social risks in their green investments. As a whole, the scheme is useful to support Hong Kong to transform into a low-carbon economy which is a paradigm shift in global scale.

**B. The Assurance of the Green Bonds Certification**

4. The HKQAA Green Finance Certification Scheme (GFCS) is an independent third-party certification exercise. Issuers of green bonds are required to establish and implement an Environmental Method Statement with project categories and environmental performance objectives to meet the requirements stipulated in the scheme.

5. GFCS includes **validation** of Environmental Method Statement for managing green projects in the **Pre-issuance Stage Certification**. Investors' confidence can be built through the certification which assures proper use of proceeds for green project categories; structured procedure with defined criteria for evaluation and selection of green projects; effective management of proceeds with mechanism to segregation and tracking of proceeds; and improved disclosure of information to stakeholders.
6. The Scheme also includes subsequent **verifications** of effective implementation of Environmental Method Statement and positive environmental effects generated by green projects during the period before maturity in the **Post-issuance Stage Certification**.
7. Currently, there is no international standard for green finance. The International Organisation for Standardisation (ISO) is now developing the *ISO 14030 Green bonds – Environmental performance of nominated projects and assets*, and HKQAA's expert directly takes part in the technical committee of ISO/TC 207/SC 4 and its working group to develop this international standard. It is common that investors engaging with external bodies to confirm their green bond frameworks aligning with good practices and principles, such as Green Bond Principles published by the International Capital Market Association.
8. The GCCS was developed with reference to various national and international standards as well as **four major environmental issues that human kinds are facing including prevention of pollution, sustainable resources use, climate change mitigation and adaptation and Protection of environment, biodiversity and restoration of natural habitats**. For climate change and energy related issues, HKQAA recognises that there are mature scientific measurable standards supporting quantitative assessment approach. **For other environmental issues, it will take time to develop measurable metrics to support quantitative assessment approach. Quantifiable criteria may also not be feasible in the view of ever-changing green technologies. Furthermore, the pace of development of standard may not be able to catch up with advancements in technology.**
9. Thus, instead of establishing dedicated performance standard for different environmental issues, GFCS adopted measurable qualitative approach to determine the adequacy of green finance management as described in Environmental Method Statement and implementation effectiveness of the statement to facilitate the generation of positive environmental effect. The Scheme makes reference to the **environmental targets under the 17 Sustainable Development Goals (SDGs) defined by the United Nations Environment Programme (UNEP)** in order to assess whether the methods in the Environmental Method Statement can bring positive effects to the environment throughout the implementation process.

10. Issuers are required to perform **Impact Assessment** to identify and propose mitigation programs for potential negative impacts that may be induced in the operation of green projects. Furthermore, GFCS allows issuers to establish their **own targets and goals through engagement with stakeholders in order to maintain a suitable balance between the stakeholders' interests and the outcomes of environmental improvement.**
11. They are also required to **disclose key information** of the green projects for achieving high transparency towards the stakeholders. Through this setting, stakeholders will play an important role in making their comment on whether the green level is suitable or not.
12. Last but not least, GFCS was developed by HKQAA with review and endorsement by HKQAA Green Finance Technical Committee which comprises of representatives from finance, environment, commerce and industry. Members of the Technical Committee also serve as member of Certification Review Board to review and approve green finance certification.

**C. The Green Finance Certification Scheme does not create hurdle to the Issuers / Green Bond Markets**

13. GFCS is a voluntary certification scheme, it does not form any parts of the existing regulatory requirements applicable to issuance of green bonds in Hong Kong.
14. Before GFCS was launched in January 2018, external reviews, for example second opinion, had been involved in the issuance of green bonds. There should be no additional hurdle created by the Scheme to issuers of green bonds that are not necessary or beneficial to stakeholders. Issuers are encouraged to establish and implement their own Environmental Method Statements to manage proceeds as well as evaluation, selection and monitoring of green projects to generate positive environmental effects.

**D. The information that the Green Finance Certification Scheme will provide to the Public and Investors**

15. HKQAA discloses all green finance certification cases, including green bonds, on its website for access of the general public and investors. The disclosure information includes the name of the issuers, the name of the green bonds, Environmental Method Statement which includes detailed information about the use of proceeds, green project evaluation and selection, management of proceeds, information disclosure and reporting, green project monitoring, impact assessment and stakeholder engagement.

**E. The Benefits and Effects of the HK Government to borrow up to \$100 billion to launch the Government Green Bond Programme**

16. The HKSAR Government as one of the enablers to issue green bonds to the Hong Kong markets will definitely help promote green bonds and have positive impact to Hong Kong's financial sector. It will serve as a role model to promote green bonds in Hong Kong, as well as to help increase the volume of transactions on bonds, and hence help strengthen the position of Hong Kong as a financial hub with full range of financial products.